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SUBJECT: SERBIA: JAT STRIKE ENDS, FOR NOW

REF: BELGRADE 1126; BELGRADE 751

SUMMARY

¶1. (SBU) Flights of JAT Airways, the Serbian flag carrier, were grounded between September 30 and October 2 due to a strike by mechanics at JAT Tehnika, the former maintenance arm of the effectively bankrupt national airline. The cause of the strike was unpaid debts between the two state companies and a move by the airline to in-source its line maintenance, undercutting JAT Tehnika's independent operation. A temporary solution ended the strike for now, but government incompetence and political games offer little hope for a permanent solution to the airline's lingering financial problems. End Summary.

JAT Temporarily Grounded

¶2. (SBU) All JAT flights from Belgrade's Nikola Tesla airport were grounded between September 30 and October 2 after JAT Tehnika, the state-owned aircraft maintenance company, refused to service the airline's planes over JAT's unpaid debts to Tehnika totaling \$1.6 million dollars. The two companies have been in talks this week with Infrastructure Minister Milutin Mrkonjic (Socialist Party - SPS) to solve the debt problem, but no long-term solution had been reached. The strike ended at 11:00 a.m. local time on October 2, local media reported and airport operations personnel confirmed for us that JAT flights had resumed on Friday afternoon. JAT Tehnika executive director Vladan Kronic said that the government had agreed on October 2 to pay half of the airline's outstanding debt to JAT Tehnika by October 5 directly from the state budget. Kronic said that the strike would continue on October 5 if the payment was not made as agreed. The airline reportedly lost almost over \$3 million dollars during the three day shut down. A meeting of Prime Minister Cvetkovic, Infrastructure Minister Mrkonjic and the general directors of both companies scheduled for October 2 to permanently resolve the companies' problems was postponed until next week.

Aborted Privatizations

¶3. (SBU) JAT Airways and JAT Tehnika (the former maintenance arm of the airline, spun off in 2005) were both scheduled to be

privatized in 2008, but both plans stalled and have not been revived. Jat Tehnika has fared better than its former parent, diversifying its revenue base from a near total dependence on the state carrier (75% of its business in 2006) to just under 50% of total business this year, Kronic, told us on October 1. JAT Tehnika currently provides all maintenance for JAT's fleet of 16 planes.

¶4. (SBU) JAT Airlines itself is essentially bankrupt, with an estimated debt of \$325 million and continues to lose money at a rapid pace (an estimated \$45 million in the first nine months of 2009). JAT Airways submitted a turnaround plan to the government in late September 2009, which called for increasing annual passenger numbers through better customer service and more flights, joining an alliance with other major airlines such as the Star Alliance, and in-sourcing most of its airplane maintenance. This turnaround plan was submitted to the government after the two companies signed a new maintenance agreement in August. (Note: JAT Airlines was unwilling to talk with us about the current situation. End Note.)

JAT and Tehnika's Growing Feud

¶5. (SBU) The immediate cause for the strike was that JAT had not paid its debts to JAT Tehnika since August and JAT Tehnika workers' wages were two months in arrears because of this shortfall, Kronic told us. Kronic said that the strike was symptomatic of deeper problems between the two companies, adding that JAT's plans to in-source line maintenance of its planes would effectively end JAT Tehnika's ability to operate as an independent company. He said that JAT Tehnika wanted to remain independent and would not allow itself to be pulled back under the air carrier.

Government Inept

¶6. (SBU) Kronic also expressed disgust at the role of politicians in the government in the relationship between the two companies, especially Infrastructure Minister Mrkonjic. He said that Mrkonjic had first promised on September 24 that JAT Tehnika workers would be paid the next day. After they were not, Mrkonjic ignored a warning strike from the company and finally responded to calls from the company almost a week later, blaming problems with transferring such a large amount of money in two days and saying he needed permission from Prime Minister Cvetkovic before he could do anything further. Kronic also said that JAT Tehnika was willing to reduce the airline's debts and to pay salaries to only 700 workers, adding that 300 of Tehnika's workers were about to be laid off, with the government promising to pay for their severance packages and other costs.

Union Frustrated

¶7. (SBU) Miroslav Mijailovic, the president of the trade union Nezavisnost, which represents many of the workers in JAT airlines and JAT Tehnika, told us on October 2 that former JAT managers and former and current government ministers bore responsibility for the airline's collapse and that the strike was about "social issues" such as pay and preserving jobs. He accused Minister Mrkonjic of arrogantly making promises he could not keep and then later calling in others in the government to solve the problem. Mijailovic cast

doubt on JAT's plans to in-source its line maintenance and turn over hard maintenance for its planes to a third party, saying he there was currently no company in Serbia other than JAT Tehnika that could complete the work. Mijailovic said although he had not seen the airline's turnaround plan, he did not think it had been approved by JAT's Managing Board. Mijailovic said sources within Infrastructure Ministry had called the plan "worthless".

18. (SBU) Radomir Markovic, former general director of JAT, told us on October 2 that incompetent political party hacks were running both JAT and JAT Tehnika. Markovic said he expected future problems if the current management remained. Aleksandar Vasovic, a journalist close to the SPS, told us on October 2 that Mrkonjic was not happy with the work of the current director of JAT Tehnika, Srdjan Miskovic. Miskovic was appointed by SPS in December 2008 and since then Tehnika had performed poorly, Vasovic said. Vasovic suggested that Tehnika could be remerged with JAT in order to improve its financial viability.

COMMENT

19. (SBU) The situation at JAT Airways is a disaster and another example of incompetence and a far too common subordination of rational business planning to political gamesmanship within Serbian state companies and ministries. Although planes are flying again,

the measures taken to end the strike are temporary at best, and do not begin to solve the deeper problems between the two companies or address the difficulties of the bankrupt airline. The airline's situation will continue to deteriorate, especially when Serbia begins to implement the open skies agreement it signed with the EU, which could lead to serious market pressure on JAT from new airlines.

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